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FOR ILAB:JANE RICHARDS, USAID/LAC/RSD:BARRY
MACDONALD,USAID/LAC/AA: MICHAEL MAGAN, USAID/LAC/RSD: JOHN
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USAID: LAWRENCE RUBEY, TEGUCIGALPA FOR USAID: JILL KELLEY,
SANTO DOMINGO FOR USAID: DUTY GREEN

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SUBJECT: NICARAGUA'S CAFTA ENVIRONMENTAL & LABOR PROJECT
PROPOSALS

REF: STATE 26123

1.(SBU) Per REFTEL, this telegram outlines proposals for three environmental and two labor projects in Nicaragua in accordance with DR-CAFTA and Mission Performance Plan priorities. These proposals were selected based on consultations with the Government of Nicaragua (GON), and vetted by the country team. In addition to adhering to the factors for funding approval detailed in the REFTEL, post sought projects that would provide concrete environmental and/or labor benefits related to broader USG priorities such as trade capacity building. The proposals are placed in rank order of mission priority. Complete project drafts will be sent via e-mail to the individuals named in the pass line, as well as to WHA/CEN. The three environmental proposals are Institutional Strengthening in Trade and Environmental Issues, Market Incentives for Improved Management of Critical Biodiversity-rich watersheds, and Cleaner Energy and Production to Enhance Competitiveness. The two labor proposals are Workforce Development in a Globalizing Economy and Improving Labor-Management Relations.

ENVIRONMENTAL PROPOSALS - - - - -

2.(SBU) INSTITUTIONAL STRENGTHENING IN TRADE AND ENVIRONMENTAL ISSUES

ranks highest among the mission's environmental proposals. Its purpose is to strengthen the ability of the GON and municipal authorities to enforce existing environmental legislation, including reinforcing institutional and legal frameworks and the capacity to develop, implement, administer and enforce environmental laws, regulations, standards and policies. Currently, institutions within the GON have limited human and financial resources, or even full legal authority to enforce environmental laws. Existing legal frameworks often lack the implementing regulations and procedures, hindering implementation. Technical assistance is required to help the GON implement its obligations under the DR-CAFTA Environmental Chapter. Specific elements include training and equipping police and prosecutors to assist environmental and forestry regulators, as well as establishing effective

and transparent procedures for dealing with violations of environmental laws and regulations. This project will complement the work to be performed by USEPA in country. This project addresses the GON,s top two priorities under the DR-CAFTA Work Plan, activities for which the GON currently lacks the funds to implement. Potential partners are EPA and CCAD. The estimated cost is \$4 million over three years.

13. (SBU) MARKET INCENTIVES FOR IMPROVED MANAGEMENT OF CRITICAL BIODIVERSITY-RICH WATERSHEDS

ranks second among the mission's environmental proposals. Its purpose is to enhance market incentives for improved natural resource management and to build the capacity for sustainable financial support for watersheds of high biodiversity importance. In addition to improving Protected Area and Private Nature Reserve Management, this proposal seeks to increase options for sustainable income generation. Specific elements include providing technical assistance to significantly increase hectares under improved environmental management, sales of environmentally friendly goods, and sales of environmentally friendly services, particularly those related to sustainable tourism. We also seek to promote "payment for environmental services" as a concept for improved management, with similar programs currently operating in Costa Rica and Guatemala to serve as models. This activity directly addresses priorities established by DR-CAFTA in the ECA Work Plan, which highlighted the need for sustainable financing for natural resource management. This project matches several of the GON,s CAFTA-ECA priorities. Furthermore, the activities described here represent some of the most visible and valued USG investments in Nicaragua and promise substantial public diplomacy dividends. The estimated cost is \$5 million over two years. This activity will leverage new private sector resources, both cash and in-kind, through the development of Global Development Alliances.

14. (SBU) CLEANER ENERGY AND PRODUCTION TO ENHANCE COMPETITIVENESS

ranks third among the mission's environmental proposals. Its purpose is to develop incentives for the GON and private sector to make investment in cleaner energy and cleaner production technologies. It will establish flexible voluntary mechanisms that provide incentives for public and private partnerships that reduce pollution and production costs. This project will assist the GON in untangling its economically and politically costly petroleum-based energy strategy and institutional arrangements to provide incentives for investments in cleaner production technologies and help local institutions provide fee-for-service cleaner production technical assistance. As a result of this project, Nicaragua,s private sector's environmental performance and competitiveness will be increased because of reduced pollution and reduced fuel and production costs. Currently, the GON,s energy policy and regulatory system creates enormous disincentives for investment in cleaner/renewable energy sources. High start up costs for environmentally friendly energy production from sources such as wind, water and thermal energy have also discouraged investment in these sources despite their abundance here. Additionally, this project seeks to promote clean production best practices and develop public-private partnerships to facilitate the transfer and adoption of cleaner energy and production technologies. The estimated cost of this program is \$1 million over two years. This activity will leverage new private sector resources, both cash and in-kind, through the development of Global Development Alliances. USAID,s implementing partners will continue to encourage and work with private firms to increase their utilization of clean production DCA. Recent meetings between GON officials responsible for energy production and regulation have identified renewable energy as a path out of Nicaragua,s energy quagmire.

LABOR PROPOSALS

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15. (SBU) WORKFORCE DEVELOPMENT IN A GLOBALIZING ECONOMY

ranks

highest among the mission's labor proposals. Its purpose is to open opportunities for Nicaraguan workers that will enable them to develop the skills necessary to work productively in a globalized economy and provide policy makers, investors, and representatives of organized labor timely and accurate information about trends and developments in the Nicaraguan labor market. Activities will be conducted for labor policy reform, labor market surveys and workforce training. This project will focus on providing specific training for workers interested in entering the emerging labor markets in Nicaragua. This initiative will build on USAID success in training workers for jobs in the agricultural processing of export crops by targeting other emerging labor markets such as tourism services, call centers, new apparel lines, and value added agricultural processing. English language training will be a key component.

16. (SBU) As a first phase, the project will develop the GON's capacity to produce reliable and timely information about labor market trends and employment rates. Assistance will provide expertise and training for the staff of the national statistics institutions to prepare labor market reports consistent with internationally recognized best practices. This information will inform the second phase, in which workshops, seminars, and courses will be executed to assist in re-tooling the workforce to meet the labor demands of emerging markets. Rigid and outdated labor markets prevent workers with little or no education from taking advantage of new employment opportunities. If existing working age people cannot find work in Nicaragua, more of them will attempt to migrate illegally to countries such as the U.S. This project will help investors to expand the job market and help workers to fill these new jobs with the required skills. Information generated by this project will also be of practical use to U.S. investors looking for opportunities in Nicaragua. The estimated cost is \$500,000 over three years. Sponsored activities will provide the mission with opportunities to demonstrate USG commitment to workers' rights and employment opportunities associated with DR-CAFTA.

17. (SBU) IMPROVING LABOR-MANAGEMENT RELATIONS ranks second among the mission's labor proposals. Its purpose is to expand and extend the Central American "Cumple y Gana" project implemented by the Department of Labor through FUNPADEM and Abt Associates to include the development of negotiation and bargaining skills for labor unions/associations, management, and the Ministry of Labor in both the public and private sectors and demonstrate how working together will help all parties to take full advantage of free trade opportunities. The project will pursue legal reforms to the rigid labor system, provide labor and industrial relations training, disseminate information to stakeholders, strengthen labor inspection systems, and strengthen alternative dispute resolution and mediation systems.

18. (SBU) The project also includes strengthening the labor inspection system by working with all of the stakeholders. Improving labor relations in both the public and private sectors will reduce economically and politically costly work stoppages. These events tarnish Nicaragua's image as a good place to invest. They also have the potential of derailing government efforts to open the economy by enhancing the political capital of anti-trade and anti-U.S. forces in the country. On the other hand, good labor relations with more predictable outcomes can send a positive message to potential investors and increase jobs and benefits for workers. The estimated cost is \$500,000 over two years. Local counterparts have expressed their satisfaction with the current project and the need to expand it. The training and other activities in this project will receive positive media attention for US efforts to both protect workers' rights and help attract new jobs, higher incomes and better working conditions.

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